

Message Text

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ACTION MMO-02

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
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TO SECSTATE WASHDC 5425
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SUBJECT: GREECE'S BALANCE OF PAYMENTS SATISFACTORY IN 1977 BUT
LACKS LONGER-TERM STABILITY

REF: (A) CERP 0102 (B) 77 ATHENS 8518 (C) 77 ATHENS A-146;
(D) 77 ATHENS 11528

1. THE FOLLOWING IS A SUMMARY OF A LONGER AIRGRAM BEING
POUCHED TO ALL ADDRESSEES.

2. GREECE'S BALANCE OF PAYMENTS, WHICH IN 1974 REELED UNDER
THE COMBINED SHOCKS OF WORLD RECESSION, QUADRUPLED OIL PRICES,
AND THE AFTERMATH OF THE CYPRUS CRISIS, HAS REBOUNDED
DRAMATICALLY IN THE LAST THREE YEARS. ALTHOUGH THE CHRONIC
TRADE DEFICIT CONTINUES TO WIDEN, IT HAS BEEN COVERED BY
INFLOWS OF AUTONOMOUS CAPITAL AND INVISIBLES, I.E. SHIPPING,
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TOURISM AND EMIGRANT REMITTANCES. NEVERTHELESS, BECAUSE
THESE SOURCES OF FINANCING ARE EACH VULNERABLE TO DOMESTIC
OF FOREIGN CRISES, GREECE WILL NOT ACHIEVE LONGER-TERM
BALANCE-OF-PAYMENTS SECURITY UNTIL A STRONG EXPORT BASE
IS ESTABLISHED; AND THIS, IN TURN, WILL DEPEND LARGELY
ON HIGHER LEVELS OF INDUSTRIAL INVESTMENT.

3. IN 1977, THE TRADE ACCOUNT DEVELOPED FAVORABLY DURING THE FIRST PART OF THE YEAR, BUT IN THE LAST FOUR MONTHS THE SLOWDOWN IN WESTERN EUROPE HAD ITS IMPACT ON GREECE'S EXPORTS, RESULTING IN A TRADE DEFICIT OF \$3.9 BILLION -- SOME \$200 MILLION HIGHER THAN ORIGINAL PROJECTIONS. NET INVISIBLES AND PARTICULARLY SHIPPING REMITTANCES, HOWEVER, INCREASED MORE RAPIDLY THAN EXPECTED, SO THE CURRENT ACCOUNT DEFICIT WAS HELD TO \$1.28 BILLION. ALTHOUGH ALMOST \$200 MILLION MORE THAN IN 1976, IT REMAINED CONSTANT AS A PROPORTION OF TOTAL GREEK OUTPUT, I.E., LESS THAN 5 PERCENT OF GNP AT MARKET PRICES.

4. MORE IMPORTANT, HOWEVER, THE CURRENT ACCOUNT DEFICIT WAS ENTIRELY COVERED BY AUTONOMOUS INFLOES OF PRIVATE CAPITAL, WHICH REACHED \$1.36 BILLION, LEAVING ONLY AMORTIZATION PAYMENTS OF \$387 MILLION TO BE COVERED BY OFFICIAL BORROWING. THE MOST IMPORTANT SOURCES OF PRIVATE CAPITAL WERE FOREIGN EXCHANGE DEPOSITS FROM GREEKS ABROAD, WHICH JUMPED AGAIN LAST YEAR BY 23 PERCENT TO \$593 MILLION, AND DEPOSITS TO PURCHASE REAL ESTATE, WHICH REACHED \$439 MILLION. ON THE OTHER HAND, A NET OUTFLOW OF LONG-TERM PRIVATE INVESTMENT CAPITAL FOR THE THIRD YEAR IN A ROW WAS DISAPPOINTING, PARTICULARLY IN VIEW OF THE NEED TO EXPAND GREECE'S INDUSTRIAL EXPORT BASE.

5. OFFICIAL BORROWING LAST YEAR REACHED \$478 MILLION LIMITED OFFICIAL USE

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VIS-A-VIS \$234 MILLION IN 1976. SINCE THIS EXCEEDED THE FINANCING GAP, GREECE WAS ABLE TO INCREASE ITS RESERVES BY \$140 MILLION, TO \$1,045 MILLION AT THE END OF THE YEAR.

6. LOOKING AHEAD TO YEAR-END 1978, OUR PROJECTIONS AT THIS POINT INDICATE AN INCREASE IN THE CURRENT ACCOUNT DEFICIT TO BETWEEN \$1.4-\$1.5 BILLION, WHICH SHOULD AGAIN BE OFFSET BY AUTONOMOUS PRIVATE CAPITAL INFLOWS FROM ROUGHLY THE SAME SOURCES AS IN 1977. IN THIS CASE, ONLY AMORTIZATION PAYMENTS OF \$350 MILLION WILL HAVE TO BE COVERED BY OFFICIAL FINANCING, EITHER BORROWING OR RESERVES. THIS PROJECTION IS BASED ON THE ASSUMPTIONS THAT EXCHANGE RATES WILL NOT FLUCTUATE WIDELY, AND THAT THERE WILL NOT BE ANY SUBSTANTIAL RECOVERY OF INDUSTRIAL INVESTMENT, SIGNIFICANT PRODUCTION INCREASES, OR GREATER PURCHASES OF MILITARY HARDWARE, ALL OF WHICH WOULD INCREASE IMPORTS. IT IS ALSO BASED ON THE ASSUMPTION THAT EXPORTS WILL RECOVER FROM THEIR CURRENT SLUMP IN THE LATTER HALF OF THE YEAR. IF ANY OF THESE ASSUMPTIONS PROVES WRONG, THERE COULD EASILY BE A FURTHER DETERIORATION OF THE TRADE AND CURRENT ACCOUNT DEFICITS.

7. NEVERTHELESS, BECAUSE OF ITS EXCELLENT INTERNATIONAL CREDIT RATING, GREECE WILL HAVE NO DIFFICULTY IN CONTRACTING LOANS TO COVER THE FINANCING GAP. INDEED, THE GOG OF LATE HAS BEEN LITERALLY BESIEGED BY BANKERS OFFERING LOANS AT UNPRECEDENTEDLY FAVORABLE RATES AND MOST HAVE LEFT DISAPPOINTED.

8. SUMMARY BALANCE OF PAYMENTS FOR 1977 AND PROJECTIONS FOR 1978 FOLLOW.

(\$ MILLIONS)

1977 1978 PROJECTION

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TRADE DEFICIT	-3,903	-4,475
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IMPORTS	6,425	7,325
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EXPORTS	2,522	2,850
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NET SERVICES AND DONATIONS OF WHICH:	2,620	3,000
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SHIPPING REMITTANCES	1,127	1,300
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EMIGRANT AND WORKERS' REMITTANCES	925	1,050
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TOURISM RECEIPTS	981	1,150
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CURRENT ACCOUNT DEFICIT	-1,283	-1,475
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NET PRIVATE CAPITAL INFLOW OF WHICH	1,360	1,480
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NET DEPOSITS IN FOREIGN EXCHANGE	593	620
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NET HOUSING INFLOWS	439	480
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NET LONG-TERM OFFICIAL CAPITAL OF WHICH:	187	50
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BORROWING	478	300
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CHANGE IN RESERVES	140	-45
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OFFICIAL ASSETS IN GOLD AND CONVERTIBLE
CURRENCIES AS OF DECEMBER 31 1,045 1,000
MCCLOSKEY

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